

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE
STATE OF CALIFORNIA**

Order Instituting Rulemaking to Oversee the Resource Adequacy Program, Consider Program Reforms and Refinements, and Establish Forward Resource Adequacy Procurement Obligations.

Rulemaking 25-10-003

**NOTICE OF EX PARTE MEETING OF THE
CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION**

Pursuant to Rule 8.2 and Rule 8.4 of the California Public Utilities Commission's (Commission) Rules of Practice and Procedure, the California Independent System Operator Corporation (CAISO) hereby provides notice of oral ex parte communication in the above captioned proceeding in which the participants discussed the CAISO's recommendation that the Resource Adequacy (RA) Track 1 Proposed Decision (PD) be modified to allow Imbalance Reserves (IR) and Reliability Capacity (RC) to be bid economically, consistent with the CAISO tariff.

This filing provides a summary of the CAISO's June 24, 2026 ex parte discussions with:

- Victor Smith, Deputy Chief of Staff and Advisor to Commissioner Darcie Houck; Erica Petrofsky, Advisor to Commissioner Darcie Houck: from 9:00 AM to 9:30 AM
- Nick Dahlberg, Energy Advisor to President John Reynolds; Jaime Rose Gannon, Program and Project Supervisor, Electric Market Design: from 10:30 AM to 11:00 AM
- Julian Buchwalter, Advisor to Commissioner Karen Douglas: from 3:00 PM to 3:30 PM

Mark Rothleder, Senior Vice President and Chief Operating Officer, CAISO; Anna McKenna, Vice President Market Design & Policy, CAISO; and Shannon O'Rourke, Director, California Regulatory Affairs, CAISO participated by WebEx on behalf of the CAISO.

In each ex parte, the CAISO recommended the Commission modify the PD to remove the zero-dollar bid requirement and allow IR and RC to be bid economically, consistent with the CAISO tariff.

The CAISO explained the PD's assumption that IR and RC duplicate the capacity value procured through the RA program is incorrect. The CAISO emphasized that IR and RC are not analogous to RA capacity and that adopting a zero-dollar bid requirement for IR and RC would risk undermining both reliability and market efficiency.

The CAISO clarified that RA capacity and IR are distinct and complementary products that serve fundamentally different purposes. RA is a planning construct that ensures sufficient resources are procured and available to meet peak system needs. Although RA carries a must-offer obligation into CAISO markets, it is not designed to manage the operational uncertainty that arises between the day-ahead and real-time timeframes. IR, by contrast, is a day-ahead market product designed specifically to preserve operational flexibility, which allows the system to respond to uncertainty that materializes after the day-ahead market clears.

The CAISO further explained that constraining bids to zero obscures the market's visibility into the costs of retaining available flexibility and hinders the market's ability to identify the least-cost solution needed to maintain reliability. This limitation is particularly impactful for storage resources, which rely on economic bidding to manage their state-of-charge. Removing this capability reduces efficient charging and discharging decisions and degrades reliability outcomes. The CAISO also explained that when resources are unable to express their true costs, the market cannot optimize effectively, resulting in outcomes that may appear lower cost in the short-term, but are less efficient and more costly over time. The CAISO also noted that RC is distinct from RA in that it is procured in both upward and downward directions and provides operational capabilities not fully captured by the RA must-offer obligation.

The CAISO acknowledged the PD's objective of avoiding duplicative compensation is valid. However, the CAISO stated that the Commission should not address this concern by suppressing bids and distorting market outcomes. Instead, this concern should be managed through contractual and transitional solutions. The CAISO market design already includes safeguards such as bid caps, demand curves, procurement parameters, and market power mitigation. Since the Day-Ahead Market Enhancements products have gone live, prices for IR

and RC have been moderate, which indicates that the framework is functioning effectively.

Respectfully submitted,

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